

## Message Text

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FOLLOWING REPEAT TEL AVIV 3645 ACTION SECSTATE DTD 24 MAY

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UNCLAS TEL AVIV 3645

E.O. 11652: N/A

TAGS: ECON, IS

SUBJECT: LIKUD PLATFORM - ECONOMIC POLICIES

REF: STATE 115255

1. THE LIKUD APPROACH TO ECONOMIC POLICY IS BASED ON THE FREE MARKET MODEL FAVORED BY ITS LIBERAL WING. IF POLICIES OUTLINED IN ITS PLATFORM ARE ADOPTED AND A LIKUD GOVERNMENT IS ABLE TO IMPLEMENT THEM, FAR-REACHING CHANGES IN ISRAEL'S ECONOMIC LIFE WOULD BE ACHIEVED. HOWEVER, AS MESSRS. RABIN AND RABINOWITZ DISCOVERED, IMPLEMENTATION OF BELT-TIGHTENING MEASURES CAN BE VERY DIFFICULT INDEED.

2. IN ITS ENGLISH LANGUAGE SUMMARY OF ITS ECONOMIC PLATFORM, THE LIKUD LISTED THE FOLLOWING POINTS: BEGIN TEXT: A FREE ECONOMY, AND GOVERNMENT GUIDANCE TO ASSURE  
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ITS PROSPERITY. THE LIKUD GOVERNMENT WILL ESTABLISH A NEW INFRASTRUCTURE FOR THE NATIONAL ECONOMY, ELIMINATE THE FAULTY STRUCTURES THAT PREVENT ECONOMIC RECOVERY, PROMOTE THE BETTER USE OF THE AVAILABLE MANPOWER AND CAPITAL RESOURCES, SEEK TO REDUCE GOVERNMENT INVOLVEMENT IN ECONOMIC ACTIVITY AND PROMOTE THE ESTABLISHMENT OF A FREE ECONOMY BASED ON FAIR REWARD, EFFICIENCY, ENTERPRISE

AND COMPETITION, THROUGH INITIATIVES IN THE FOLLOWING FIELDS: (A) HALTING THE INFLATION. IT IS POSSIBLE TO REDUCE THE INCREASE OF PRICES TO REASONABLE RATES, FAR LOWER THAN THE INFLATION RATE IN THE LAST FOUR YEARS, MAINLY BY MEANS OF REDUCING THE DEFICITS OF GOVERNMENT BUDGETS AND THE FLOW OF FUNDS TO THE PUBLIC SECTOR. LIKUD WILL ACT TO REDUCE NON-ESSENTIAL GOVERNMENT AND PUBLIC SPENDING AND ACTIVITIES AND TO SCALE DOWN SUPERFLUOUS ADMINISTRATIVE MACHINERY, WHILE ASSURING THE ORDERLY CONVERSION OF WORKERS TO MORE PRODUCTIVE OCCUPATIONS. (B) REDUCTION OF THE BALANCE-OF-PAYMENTS DEFICIT. THE EFFORT TO ACHIEVE ECONOMIC INDEPENDENCE REQUIRES A REDUCTION OF THE DEFICIT OF THE CURRENT BALANCE OF PAYMENTS TO ABOUT 40 PERCENT OF ITS PRESENT VOLUME WITHIN FOUR YEARS. THIS TARGET WILL BE ACHIEVED BY A CONSIDERABLE INCREASE OF EXPORTS AND REDUCTION OF IMPORTS, INCLUDING DEFENSE IMPORTS, IN REAL TERMS. TO THAT END, IT WILL BE NECESSARY TO ADOPT AN EXCHANGE POLICY THAT ENCOURAGES EXPORT, MAKES IMPORT MORE COSTLY, AND REFLECTS THE TRUE VALUE OF THE ISRAEL POUND. (C) TAXATION. LIKUD WILL TAKE STEPS TO SIMPLIFY THE TAX STRUCTURE AND THE ABOLITION OF DOUBLE AND UNNECESSARY TAXES, TO THE POINT WHERE THERE WILL BE ONLY TWO TAXES: A PROGRESSIVE INCOME TAX, AND A VALUE ADDED TAX AT A UNIFORM RATE OF EXPENDITURE. (D) LABOR RELATIONS AND WAGE POLICY. LIKUD WILL PROMOTE THE STABILIZATION OF LABOR RELATIONS, MAINLY BY LAYING DOWN A POLICY BASED ON AGREEMENTS BETWEEN EMPLOYEES AND EMPLOYERS IN THE DIFFERENT BRANCHES AND AIMED AT THE

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ESTABLISHMENT OF A DIRECT RELATION BETWEEN OUTPUT AND WAGES. WAGE LINKAGE BETWEEN ONE TRADE OR PROFESSION AND ANOTHER WILL BE ABOLISHED AND A FAIR REWARD FOR KNOW-HOW, FUNCTION, SPECIALIZATION, INITIATIVE, INCREASE OF THE REAL OUTPUT, EFFORT AND RESPONSIBILITY WILL BE ASSURED. THE ANARCHY IN LABOR RELATIONS, WHICH IS A RESULT OF THE ALIGNMENT ADMINISTRATION'S WEAKNESS, MAKES IT ESSENTIAL TO INTRODUCE COMPULSORY ARBITRATION IN ESSENTIAL SERVICES, SO THAT LABOR DISPUTES MAY BE SETTLED BEFORE THEY ESCALATE INTO WILDCAT STRIKES WITH THEIR RUINOUS EFFECT ON THE ENTIRE ECONOMY. END TEXT.

3. IN ITS MORE DETAILED VERSION, THE PLATFORM SPEAKS OF RENEWING ECONOMIC GROWTH TO A RATE OF 5 TO 8 PERCENT A YEAR, MAINLY BY INCREASES IN PRODUCTIVITY. INFLATION IS TO BE GRADUALLY CUT TO 15 PERCENT. FULL EMPLOYMENT WILL BE MAINTAINED, ALTHOUGH THERE WILL BE SOME FRICTIONAL UNEMPLOYMENT AS WORKERS MOVE FROM SERVICES AND THE GOVERNMENT SECTOR TO THE INDUSTRIAL SECTOR. A

FREE CAPITAL MARKET IS TO BE DEVELOPED; PRESENT MARKET-DISTORTING GOI MEASURES, INCLUDING SUBSIDIZED LOANS, NEW ISSUES OF LINKED BONDS, AND HEAVY GOVERNMENT DEFICITS, WILL BE DROPPED.

4. ACCORDING TO THE PLATFORM, THE BALANCE OF PAYMENTS DEFICIT SHOULD BE MORE THAN HALVED WITHIN FIVE YEARS TO \$1.5 BILLION THROUGH EXPORT INCREASES, A CUTBACK IN DEFENSE IMPORTS, AND REAL DEVALUATIONS OF 5 PERCENT OVER AND ABOVE THE DIFFERENTIAL INFLATION RATE.  
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